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SUBJECT: EASTERN CARIBBEAN DELAYS ENTERING CARICOM SINGLE  
MARKET

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1B. BRIDGETOWN 206

11. (SBU) Summary: CARICOM's delay in setting up a special fund for less developed countries threatens to further postpone the entry of the small nations of the Organization of Eastern Caribbean States (OECS) into the CARICOM Single Market and Economy (CSME). The OECS members made the establishment of a Regional Development Fund (RDF) a precondition for their entry into the single market and declined to join other CARICOM members in signing the CSME in January. Continued setbacks in creating the development fund have led to a debate within the OECS over whether to sign the CSME without first having the fund in place. Questions have also been raised about the utility of the OECS nations even being in the single market. Although the OECS members may ultimately elect to sign the CSME without the development fund, the current regional discussion has raised serious questions about whether the CARICOM single market would actually benefit the Eastern Caribbean. End summary.

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Eastern Caribbean Waits for Development Fund  
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12. (U) The six nations of the OECS (Antigua and Barbuda, Dominica, Grenada, St. Kitts, St. Lucia, and St. Vincent and the Grenadines) attended the CSME signing ceremony on January 30, but chose not to sign the agreement at that time in order to wait until CARICOM established a Regional Development Fund to assist the less developed nations in the region (ref B). The OECS heads of government declared their intention to sign the CSME by June 30, by which time it was thought the RDF would be in place. Now that it appears probable the development fund will not be established by the end of June, a debate has ensued about when to join the single market.

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Prime Ministers Divided  
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13. (U) The OECS heads of government have sent various signals regarding their intentions toward signing the CSME with or without the development fund. Following an April CARICOM meeting, statements by OECS Prime Ministers suggested the sub-region would wait for the finalization of the RDF, which the leaders were confident would be in place by their suggested June 30 CSME signing date. After, however, CARICOM's Council for Finance and Planning (COFAP) failed during a May 19th meeting to agree on details for funding the RDF, Antigua Prime Minister Baldwin Spencer explained that

OECS participation in the CSME is contingent upon establishing the development fund, but stopped short of stating that Antigua would not sign if CARICOM missed the June 30 date. In contrast, the Prime Ministers of St. Vincent and Dominica made clear that the OECS had committed to sign the CSME by June 30 regardless of whether the RDF was in place. Eastern Caribbean leaders will attempt to reach a consensus during their June 21 meeting in St. Kitts that marks the twenty-fifth anniversary of the founding of the OECS.

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Who Pays for the Development Fund?  
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¶4. (U) Money is behind CARICOM's impasse over establishing the RDF, which has been envisioned to hold anywhere from US\$120 to US\$250 million that would be made available to fund development projects in the less developed CARICOM member states. The May 19th CARICOM meeting was to have settled the contentious issue of the amount each country should contribute to the RDF. The small Eastern Caribbean states are looking toward regional economic powers Jamaica, Trinidad, and Barbados to donate the majority of the funding while an assessment would be made to determine the contributions from other CARICOM members. A funding formula is being discussed at a June 9th COFAP meeting in Barbados and should be settled upon at a CARICOM Heads of Government meeting in July in St. Kitts.

¶5. (SBU) Note: Dominica Foreign Minister Charles Savarin told P/E Counselor during a May 18 conversation that the USG should send a signal as to how much it would contribute to the development fund. Savarin suggested that the U.S. match

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Trinidad's contribution. This appeared to be Savarin's initiative alone and not an official CARICOM request. End note.

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OECS at a Disadvantage in the CSME  
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¶6. (U) Establishment of the RDF has become the key element of the CSME for the Eastern Caribbean states, which see the development fund as potentially making up for the competitive disadvantage they are at compared to more developed CARICOM members. An assessment carried out by the OECS Secretariat, the organization's St. Lucia-based professional staff, found that the small (population 500,000) sub-region has higher labor and energy costs than most CARICOM states. Combined with poor transportation, these costs have made it difficult to attract manufacturing or other non-tourism related investment. The result has been a steadily worsening trade deficit with the rest of CARICOM. Consumers in the OECS already see their market dominated by products from Trinidad, the region's industrial giant. Many local observers believe the CSME will be a boon to Trinidad at the expense of the Eastern Caribbean.

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So Why Join the Single Market?  
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¶7. (U) Regional business leaders have typically expressed quiet concern over the impact of the CSME on the Eastern Caribbean, choosing not to confront their government leaders who have been staunch supporters of CARICOM-wide economic integration. This calm was broken in May when Allen Chastanet, President of the St. Lucia Hotel and Tourism Association, publicly challenged the CSME during a hoteliers meeting in Dominica. "The question is why is it taking our ministers so long to figure out that the CSME offers nothing for the OECS. Right now Trinidad and Tobago has a massive trade surplus with us. We don't have a hope in hell in

competing," he declared. Chastanet recommended that the Eastern Caribbean focus instead on strengthening its own integration through the OECS.

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Don't Knock Trinidad  
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18. (U) Dominica Prime Minister Roosevelt Skerrit came to the defense of the CSME by dismissing Chastanet's criticism and decrying what the PM described as "a growing negative attitude in the OECS towards Trinidad." While recognizing that Trinidad has a substantial trade surplus with the OECS, Skerrit said that the people of the Eastern Caribbean should not criticize the Government or people of Trinidad for taking advantage of their economic strength. The PM cited Trinidad's willingness to assist its less developed neighbors, such as aiding Dominica when the country faced financial collapse several years ago or Grenada after Hurricane Ivan destroyed much of the island's infrastructure in 2004.

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Comment  
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19. (SBU) The Eastern Caribbean's insistence upon receiving special development funds in exchange for entering the CARICOM single market is based upon both fear and hope. The small countries in the region fear their increasing economic marginalization within the larger Caribbean and the dominance of their small market by products from Trinidad and to some degree Jamaica. Their hope is that with the Regional Development Fund in place, the OECS will receive funding for development projects that will help it to better compete within the CSME. The case of Ireland using European Union (EU) development funds to become an economic success story is often presented as an example of what could happen within the Eastern Caribbean. The problem with the analogy is that the OECS countries are much smaller than Ireland and their populations lack the high educational level attained by the Irish. Most importantly, the Eastern Caribbean is part of CARICOM, not the dynamic economy of the EU.

110. (SBU) The six OECS member states will most likely gain

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access to money through the Regional Development Fund and ultimately join the CSME. How the OECS intends to apply this new assistance to its development needs remains uncertain. Given that the region already receives significant aid from a variety of international donors, the RDF will not be the determining factor in turning the Eastern Caribbean around; the small island states will remain on CARICOM's economic margin for the foreseeable future. Independent of CARICOM and the single market, the OECS has taken significant steps toward closer economic integration among its member states (ref A). Continuing along these lines represents the Eastern Caribbean's best hope of gradually becoming more competitive within the CSME and beyond.

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